

PART I – FINANCIAL INFORMATION

Item 1. FINANCIAL STATEMENTS

XTRA-GOLD RESOURCES CORP.

(An Exploration Stage Company)

CONSOLIDATED BALANCE SHEETS

(Expressed in U.S. Dollars)

As at September 30, 2010

(unaudited)

	September 30, 2010	December 31, 2009
ASSETS		
Current		
Cash and cash equivalents	\$ 1,915,544	\$ 622,670
Investment in trading securities, at fair value (cost of \$100,369 (December 31, 2009 - \$1,636,628) (Note 4))	169,821	1,781,594
Receivables and other	49,423	46,462
Deposit for equipment	—	151,506
Total current assets	2,134,788	2,602,232
Equipment	659,263	244,508
Deferred financing costs	—	1,283
Oil and gas investment (Note 5)	—	40,000
Mineral properties (Note 6)	1,662,564	1,662,564
TOTAL ASSETS	\$ 4,456,615	\$ 4,550,587
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current		
Accounts payable and accrued liabilities	\$ 168,744	\$ 233,073
Convertible debentures (Note 7)	—	250,000
Total current liabilities	168,744	483,073
Asset retirement obligation	77,299	71,906
Total liabilities	246,043	554,979
Stockholders' equity		
Capital stock (Note 8)		
Authorized 250,000,000 common shares with a par value of \$0.001		
Issued and outstanding 34,848,586 common shares (December 31, 2009 – 33,231,477 common shares)	34,849	33,231
Additional paid in capital	16,550,842	14,771,222
Deficit	(1,427,764)	(1,427,764)
Deficit accumulated during the exploration stage	(10,866,518)	(9,304,452)
Total stockholders' equity	4,291,409	4,072,237
Non-controlling interest	(80,837)	(76,629)
Total stockholders' equity	4,210,572	3,995,608
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	\$ 4,456,615	\$ 4,550,587

History and organization of the Company (Note 1)

Contingency and commitments (Note 12)

The accompanying notes are an integral part of these consolidated financial statements.

XTRA-GOLD RESOURCES CORP.
(An Exploration Stage Company)
CONSOLIDATED STATEMENTS OF OPERATIONS
(Expressed in U.S. Dollars)
For the period ended September 30, 2010
(unaudited)

	Cumulative amounts from the beginning of the exploration stage on January 1, 2003 to September 30, 2010		Three Months Ended September 30, 2010	Three Months Ended September 30, 2009	Nine Months Ended September 30, 2010	Nine Months Ended September 30, 2009
EXPENSES						
Amortization	\$	229,919	\$ 23,640	\$ 16,907	\$ 44,274	\$ 50,969
Exploration		13,343,635	872,154	601,421	1,309,423	705,958
General and administrative		6,075,665	370,515	184,778	1,090,432	462,194
Write-off of mineral property		26,000	—	—	—	—
LOSS BEFORE OTHER ITEMS						
		(19,675,219)	(1,266,309)	(803,106)	(2,444,129)	(1,219,121)
OTHER ITEMS						
Foreign exchange gain		391,583	14,345	116,250	21,055	246,520
Interest expense		(241,936)	—	(642)	(1,283)	(1,925)
Realized gain (loss) on sales of trading securities		193,119	34,398	(90,788)	169,539	(180,740)
Net unrealized gains (losses) on trading securities		(144,431)	(59,557)	318,474	(77,858)	509,157
Other income		855,743	4,169	33,841	33,011	106,883
Recovery of gold		7,577,356	733,391	—	733,391	11,603
Gain on disposal of property		96,430	—	—	—	—
		8,727,864	726,746	377,135	877,855	691,498
Consolidated loss for the period		(10,947,355)	(539,563)	(425,971)	(1,566,274)	(527,623)
Net (income) loss attributable to non-controlling interest		80,837	(23,938)	—	4,208	—
Loss for the period	\$	(10,866,518)	\$ (563,501)	\$ (425,971)	\$ (1,562,066)	\$ (527,623)
Basic and diluted loss per common share	\$		\$ (0.02)	\$ (0.01)	\$ (0.05)	\$ (0.02)
Basic and diluted weighted average number of common shares outstanding			34,625,543	32,378,004	34,031,604	31,919,602

The accompanying notes are an integral part of these consolidated financial statements.

XTRA-GOLD RESOURCES CORP.

(An Exploration Stage Company)

CONSOLIDATED STATEMENTS OF CASH FLOWS

(Expressed in U.S. Dollars)

For the period ended September 30, 2010

(unaudited)

	Cumulative amounts from the beginning of the exploration stage on January 1, 2003 to September 30, 2010	Nine Months Ended September 30, 2010	Nine Months Ended September 30, 2009
CASH FLOWS FROM OPERATING ACTIVITIES			
Net loss for the period	\$ (10,947,355)	\$ (1,566,274)	\$ (527,623)
Items not affecting cash:			
Amortization	229,919	44,274	50,969
Amortization of deferred financing costs	46,202	1,283	1,925
Accretion of asset retirement obligation	22,464	5,393	4,903
Shares issued for services	202,365	—	—
Stock-based compensation	1,398,568	331,386	63,974
Unrealized foreign exchange loss	(454,088)	(24,299)	(142,089)
Realized losses on sale of trading securities	(193,119)	(169,539)	180,740
Purchase of trading securities (Note 4)	(11,564,690)	—	(635,809)
Proceeds on sale of trading securities (Note 4)	11,907,645	1,737,753	842,953
Unrealized (gains) losses on trading securities	144,431	77,858	(509,157)
Gain on disposal of property	(95,342)	—	—
Write-off of mineral property	26,000	—	—
Expenses paid by stockholders	2,700	—	—
Changes in non-cash working capital items:			
(Increase) decrease in receivables and other	(41,048)	(2,961)	18,380
Increase (decrease) in accounts payable and accrued liabilities	158,052	(64,329)	(329,037)
Increase in due to related party	50,000	—	—
Net cash provided by (used in) operating activities	<u>(9,107,296)</u>	<u>370,545</u>	<u>(979,871)</u>
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from issuance of convertible debentures	900,000	—	—
Deferred financing costs	(46,202)	—	—
Repurchase of capital stock	(165,000)	(108,000)	(50,000)
Issuance of capital stock, net of financing costs	<u>11,150,284</u>	<u>1,307,852</u>	<u>951,311</u>
Net cash provided by financing activities	<u>11,839,082</u>	<u>1,199,852</u>	<u>901,311</u>

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The accompanying notes are an integral part of these consolidated financial statements.

XTRA-GOLD RESOURCES CORP.
(An Exploration Stage Company)
CONSOLIDATED STATEMENTS OF CASH FLOWS
(Expressed in U.S. Dollars)
For the period ended September 30, 2010
(unaudited)

	Cumulative amounts from the beginning of the exploration stage on January 1, 2003 to September 30, 2010	Nine Months Ended September 30, 2010	Nine Months Ended September 30, 2009
<i>Continued ...</i>			
CASH FLOWS FROM INVESTING ACTIVITIES			
Acquisition of equipment	(741,499)	(307,523)	—
Deposit on equipment	(151,506)	—	—
Oil and gas property expenditures	(250,137)	—	—
Acquisition of cash on purchase of subsidiary	11,510	—	—
Acquisition of subsidiary	(25,000)	—	—
Proceeds on disposal of assets	340,390	30,000	—
Net cash used in investing activities	<u>(816,242)</u>	<u>(277,523)</u>	<u>—</u>
Change in cash and cash equivalents during the period	1,915,544	1,292,874	(78,560)
Cash and cash equivalents, beginning of the period	<u>—</u>	<u>622,670</u>	<u>271,573</u>
Cash and cash equivalents, end of the period	<u>\$ 1,915,544</u>	<u>\$ 1,915,544</u>	<u>\$ 193,013</u>

Supplemental disclosure with respect to cash flows (Note 10)

The accompanying notes are an integral part of these consolidated financial statements.

XTRA-GOLD RESOURCES CORP.

(An Exploration Stage Company)

CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY

(Expressed in U.S. Dollars)

As at September 30, 2010

(unaudited)

	<u>Capital Stock</u>		Additional Paid in Capital	Deficit	Non- Controlling Interest	Deficit Accumulated During the Exploration Stage	Total
	Number of Shares	Amount					
Balance, December 31, 2009	33,231,477	\$ 33,231	\$ 14,771,222	\$ (1,427,764)	\$ (76,629)	\$ (9,304,452)	\$ 3,995,608
February, 2010 – Conversion of debentures at \$1.00 per share	250,000	250	249,750	—	—	—	250,000
March, 2010 – Repurchase and cancellation of shares at \$1.34 per share	(80,891)	(80)	(107,920)	—	—	—	(108,000)
April, 2010 – Private placement at \$1.00 per unit	838,000	838	837,162	—	—	—	838,000
April, 2010 – Finders' warrants on private placement	—	—	40,516	—	—	—	40,516
June, 2010 – Private placement at \$1.00 per unit	250,000	250	249,750	—	—	—	250,000
June, 2010 – Finders' warrants on private placement	—	—	15,091	—	—	—	15,091
August, 2010 – Conversion of warrants at \$1.00 per share	360,000	360	359,640	—	—	—	360,000
Share issuance costs	—	—	(195,755)	—	—	—	(195,755)
Stock-based compensation	—	—	331,386	—	—	—	331,386
Loss for the period	—	—	—	—	(4,208)	(1,562,066)	(1,566,274)
Balance, September 30, 2010	34,848,586	\$ 34,849	\$ 16,550,842	\$ (1,427,764)	\$ (80,837)	\$ (10,866,518)	\$ 4,210,572

The accompanying notes are an integral part of these consolidated financial statements.

XTRA-GOLD RESOURCES CORP.

(An Exploration Stage Company)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in U.S. Dollars)

SEPTEMBER 30, 2010

(unaudited)

1. HISTORY AND ORGANIZATION OF THE COMPANY

The Company was incorporated under the laws of the State of Nevada on September 1, 1998 under the name Silverwing Systems Corporation pursuant to the provisions of the Nevada Revised Statutes. In 2003, the Company became a resource exploration company. On October 31, 2003, the Company acquired 100% of the issued and outstanding common shares of Xtra-Gold Resources, Inc. (“XGRI”). XGRI was incorporated in Florida on October 24, 2003. On December 19, 2003, the Company changed its name to Xtra-Gold Resources Corp.

In 2004, the Company acquired 100% of the issued and outstanding capital stock of Canadiana Gold Resources Limited (“Canadiana”) and 90% of the issued and outstanding capital stock of Goldenrae Mining Company Limited (“Goldenrae”). Both companies are incorporated in Ghana and the remaining 10% of the issued and outstanding capital stock of Goldenrae is held by the Government of Ghana.

On December 21, 2005, Canadiana changed its name to Xtra-Gold Exploration Limited (“XG Exploration”).

On January 13, 2006, Goldenrae changed its name to Xtra-Gold Mining Limited (“XG Mining”).

On October 20, 2005, the Company incorporated Xtra Oil & Gas Ltd. (“XOG”) in Alberta, Canada.

On March 2, 2006, the Company incorporated Xtra Oil & Gas (Ghana) Limited (“XOGG”) in Ghana.

2. GOING CONCERN

The Company is in the exploration stage with respect to its resource properties, incurred a loss of \$1,562,066 for the nine months ended September 30, 2010 and has accumulated a deficit during the exploration stage of \$10,866,518. This raises substantial doubt about its ability to continue as a going concern. The ability of the Company to continue as a going concern is dependent on the Company’s ability to raise additional capital and implement its business plan. The financial statements do not include any adjustments that might be necessary if the Company is unable to continue as a going concern.

Management of the Company (“Management”) is of the opinion that sufficient financing will be obtained from external financing and further share issuances to meet the Company’s obligations. At September 30, 2010, the Company has working capital of \$1,966,044.

3. SIGNIFICANT ACCOUNTING POLICIES

The accompanying unaudited financial statements have been prepared by the Company in conformity with accounting principles generally accepted in the United States of America applicable to interim financial information and with the rules and regulations of the United States Securities and Exchange Commission. Accordingly, certain information and note disclosures normally included in financial statements prepared in accordance with generally accepted accounting principles have been condensed, or omitted, pursuant to such rules and regulations. In the opinion of management the unaudited interim financial statements include all adjustments necessary for the fair presentation of the results of the interim periods presented. All adjustments are of a normal recurring nature, except as otherwise noted below. These financial statements should be read in conjunction with the Company’s audited consolidated financial statements and notes thereto for the year ended December 31, 2009, included in the Company’s Form 10-K, filed with the Securities and Exchange Commission. The results of operations for the interim periods are not necessarily indicative of the results of operations for any other interim period or for a full fiscal year.

XTRA-GOLD RESOURCES CORP.

(An Exploration Stage Company)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in U.S. Dollars)

SEPTEMBER 30, 2010

(unaudited)

3. SIGNIFICANT ACCOUNTING POLICIES (cont'd...)**Principles of Consolidation**

The following companies have been consolidated within the unaudited condensed consolidated interim financial statements:

Company	Registered	Principle activity
Xtra-Gold Resources Corp.	Nevada, U.S.A.	Parent company
Xtra-Gold Exploration Limited ⁽¹⁾	Ghana	Exploration company
Xtra-Gold Mining Limited ⁽²⁾	Ghana	Mining company
Xtra Oil & Gas Ltd. ⁽¹⁾⁽³⁾	Alberta, Canada	Holding company
Xtra Oil & Gas (Ghana) Limited ⁽¹⁾⁽³⁾	Ghana	Holding company

⁽¹⁾ 100% owned by Xtra-Gold Resources Corp.;

⁽²⁾ 90% owned by Xtra-Gold Resources Corp. The Government of Ghana owns the remaining 10%.

⁽³⁾ Dormant.

All intercompany accounts and transactions have been eliminated on consolidation.

Exploration and evaluation expenditures

Exploration and evaluation expenditures include the costs of acquiring licenses, costs associated with exploration and evaluation activity. Exploration and evaluation expenditures are expensed as incurred except for expenditures associated with the acquisition of exploration and evaluation assets, which are recognized at the fair value at the acquisition date.

Once a project has been established as commercially viable and technically feasible, related development expenditure is capitalized. This includes costs incurred in preparing the site for mining operations. Capitalization ceases when the mine is capable of commercial production, with the exception of development costs which give rise to a future benefit.

Equipment

Equipment is carried at cost, less accumulated depreciation and accumulated impairment losses.

The cost of an item of equipment consists of the purchase price, any costs directly attributable to bringing the asset to the location and condition necessary for its intended use and an initial estimate of the costs of dismantling and removing the item and restoring the site on which it is located.

Amortization is recognized based on the cost of an item of property, plant and equipment, less its estimated residual value, over its estimated useful life at the following rates:

Detail	Percentage	Method
Vehicles	30%	Declining balance
Mobile equipment	30%	Declining balance
Furniture and fixtures	30%	Declining balance
Field equipment	20%	Declining balance
Computer equipment	30%	Declining balance

XTRA-GOLD RESOURCES CORP.

(An Exploration Stage Company)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in U.S. Dollars)

SEPTEMBER 30, 2010

(unaudited)

3. SIGNIFICANT ACCOUNTING POLICIES (cont'd...)**Equipment (cont'd...)**

An asset's residual value, useful life and depreciation method are reviewed, and adjusted if appropriate, on an annual basis.

An item of equipment is de-recognized upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on disposal of the asset, determined as the difference between the net disposal proceeds and the carrying amount of the asset, is recognized in profit or loss in the condensed consolidated interim statements of comprehensive income or loss.

Where an item of equipment consists of major components with different useful lives, the components are accounted for as separate items of equipment. Expenditures incurred to replace a component of an item of equipment that is accounted for separately, including major inspection and overhaul expenditures, are capitalized.

Fair value of financial assets and liabilities

The following table presents information about the assets that are measured at fair value on a recurring basis as of September 30, 2010, and indicates the fair value hierarchy of the valuation techniques the Company utilized to determine such fair value. In general, fair values determined by Level 1 inputs utilize quoted prices (unadjusted) in active markets for identical assets. Fair values determined by Level 2 inputs utilize data points that are observable such as quoted prices, interest rates and yield curves. Fair values determined by Level 3 inputs are unobservable data points for the asset or liability, and includes situations where there is little, if any, market activity for the asset:

	September 30, 2010	Quoted Prices in Active Markets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Assets:				
Cash and cash equivalents	\$ 1,915,544	\$ 1,915,544	\$ —	\$ —
Marketable securities	\$ 169,821	\$ 169,821	\$ —	\$ —
Total	\$ 2,085,365	\$ 2,085,365	\$ —	\$ —

The fair values of cash and cash equivalents and marketable securities are determined through market, observable and corroborated sources.

Recent accounting pronouncements

In April 2010, the FASB issued *ASU 2010-13, Compensation – Stock (Topic 718)*, amending ASC 718. ASU 2010-13 clarifies that a share-based payment award with an exercise price denominated in the currency of a market in which the entity's equity securities trade should not be classified as a liability if it otherwise qualifies as equity. ASU 2010-13 also improves GAAP by improving consistency in financial reporting by eliminating diversity in practice. ASU 2010-13 is effective for interim and annual reporting periods beginning after December 15, 2010. The Company is currently evaluating the impact of ASU 2010-13, but does not expect its adoption to have a material impact on the Company's financial position or results of operations.

XTRA-GOLD RESOURCES CORP.

(An Exploration Stage Company)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in U.S. Dollars)

SEPTEMBER 30, 2010

(unaudited)

3. SIGNIFICANT ACCOUNTING POLICIES (cont'd...)**Recent accounting pronouncements (cont'd...)**

In October 2009, the FASB issued ASU 2009-13, *Revenue Recognition (Topic 605), Multiple-Deliverable Revenue Arrangements* amending ASC 605. ASU 2009-13 requires entities to allocate revenue in an arrangement using estimated selling prices of the delivered goods and services based on a selling price hierarchy. ASU 2009-13 eliminates the residual method of revenue allocation and requires revenue to be allocated using the relative selling price method. ASU 2009-13 is effective prospectively for revenue arrangements entered into or materially modified in fiscal years beginning on or after June 15, 2010. The Company is currently evaluating the impact of ASU 2009-13, but does not expect its adoption to have a material impact on the Company's financial position or results of operations.

In January 2010, the FASB issued ASU 2010-06, *Fair Value Measurements and Disclosures (Topic 820), Improving Disclosures about Fair Value Measurements*, amending ASC 820. ASU 2010-06 requires entities to provide new disclosures and clarify existing disclosures relating to fair value measurements. The new disclosures and clarifications of existing disclosures are effective for interim and annual reporting periods beginning after December 15, 2009, except for the disclosures about purchases, sales, issuances, and settlements in Level 3 fair value measurements, which are effective for fiscal years beginning after December 15, 2010 and for interim periods within those fiscal years. The Company has adopted ASU 2010-06, which did not have a material impact on the Company's financial position or results of operations.

In February 2010, the FASB issued ASU 2010-09, *Subsequent Events (Topic 855)*, amending ASC 855. ASU 2010-09 removes the requirement for an SEC filer to disclose a date relating to its subsequent events in both issued and revised financial statements. ASU 2010-09 also eliminates potential conflicts with the SEC's literature. Most of ASU 2010-09 is effective upon issuance of the update. The Company adopted ASU 2010-09 in February 2010, and its adoption did not have a material impact on the Company's financial reporting and disclosures.

4. INVESTMENTS IN TRADING SECURITIES

At September 30, 2010, the Company held investments classified as trading securities, which consisted of various equity securities. All trading securities are carried at fair value. As of September 30, 2010, the fair value of trading securities was \$169,821 (December 31, 2009 – \$1,781,594).

5. OIL AND GAS INVESTMENT

In April 2008, XOG purchased an 18.9% participating interest in a petroleum and natural gas lease at an Alberta Crown Land sale. The lease has a five year term, but may be held by continuous production of petroleum and natural gas commencing prior to the expiry of the five year term. During the nine months ended September 30, 2010, the Company sold its 18.9% participating interest for \$40,000.

6. MINERAL PROPERTIES

	September 30, 2010	December 31, 2009
Acquisition costs	\$ 1,607,729	\$ 1,607,729
Asset retirement obligation	54,835	54,835
Total	\$ 1,662,564	\$ 1,662,564

XTRA-GOLD RESOURCES CORP.

(An Exploration Stage Company)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in U.S. Dollars)

SEPTEMBER 30, 2010

(unaudited)

6. MINERAL PROPERTIES (cont'd...)

Kibi, Kwabeng and Pameng Projects

The Company holds three mining leases in Ghana. These mining leases grant the Company mining rights to produce gold in the leased areas until December 17, 2015 with respect to the Kibi Project (formerly known as the Apapam Project), which can be renewed for a further 30 year term on application and payment of applicable fees to the Minerals Commission, and until July 26, 2019 with respect to the Kwabeng and Pameng Projects. All gold production will be subject to a 5% production royalty of the net smelter returns ("NSR").

Banso and Muoso Project

The Company holds a prospecting license on its Banso and Muoso Project in Ghana. This license grants the Company the right to conduct exploratory work to determine whether there are mineable reserves of gold or diamonds in the licensed areas, and currently has been renewed for a further one year term (to December 21, 2010) and is further renewable on application and payment of applicable renewal fees to the Minerals Commission. If mineable reserves of gold or diamonds are discovered, the Company will have the option to acquire a mining lease.

The Company executed a letter of intent with Verbina Resources Inc. ("Verbina") on July 21, 2010 whereby Verbina can acquire an undivided 55% interest in the Company's interest in the mineral rights of the Company's Banso and Muoso concessions ("Concessions") upon completion by Verbina of (i) a cash payment to the Company of \$100,000 upon the date of execution of a definitive binding agreement to be entered into between the parties (the "Effective Date"); (ii) a cash payment to the Company of \$200,000 within 90 days of the Effective Date; (iii) the issuance of 1,000,000 fully paid and non-assessable common shares of Verbina to the Company upon the Effective Date; and (iv) Verbina incurring \$4,500,000 in exploration expenditures ("Expenditures") on the Concessions within five years of the Effective Date, as to (A) \$500,000 being incurred in the first year from the Effective Date; and (B) \$1,000,000 being incurred in each year thereafter. Verbina shall have the right to accelerate the Expenditures at any time.

The Company is to be paid a further \$50,000 by Verbina on the Effective Date whereby Verbina will acquire an immediate 55% interest in the alluvial rights to the Concessions, such purchase being subject to a definitive agreement to be entered into between the parties on or before the Effective Date. The definitive agreement will require approval from the Minister of Lands, Forestry and Mines.

No further action was taken to advance this agreement during the quarter ended September 30, 2010.

Option agreement on Edum Banso Project

In October, 2005, XG Exploration entered into an option agreement (the "Option Agreement") with Adom Mining Limited ("Adom") to acquire 100% of Adom's right, title and interest in and to a prospecting license on the Edum Banso concession (the "Edum Banso Project") located in Ghana. Adom further granted XG Exploration the right to explore, develop, mine and sell mineral products from this concession. The renewal date was July 14, 2009 and the Company has been granted an extension by the Minerals Commission to December 1, 2010.

The consideration paid was \$15,000 with additional payments of \$5,000 to be paid on the anniversary date of the Option Agreement in each year during the term which term has been extended to November 11, 2013. Upon the commencement of gold production, an additional \$200,000 is to be paid, unless proven and probable reserves are less than 2,000,000 ounces, in which case the payment shall be reduced to \$100,000.

XTRA-GOLD RESOURCES CORP.

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in U.S. Dollars)

SEPTEMBER 30, 2010

(unaudited)

6. MINERAL PROPERTIES (cont'd...)**Option agreement on Edum Banso Project (cont'd...)**

Upon successful transfer of title from Adom to XG Exploration, a production royalty (the "Royalty") of 2% of the net smelter returns shall be paid to Adom; provided, however that in the event that less than 2,000,000 ounces of proven and probable reserves are discovered, then the Royalty shall be 1%. The Royalty can be purchased by XG Exploration for \$2,000,000; which will be reduced to \$1,000,000 if proven and probable reserves are less than 2,000,000 ounces.

Mining lease and prospecting license commitments

The Company is committed to expend, from time to time to the Minerals Commission for an extension of an expiry date of a prospecting license (currently \$15,000 for each occurrence) or a mining lease and the Environmental Protection Agency ("EPA") (of Ghana) for processing and certificate fees with respect to EPA permits, an aggregate of less than \$500 in connection with annual or ground rent and mining permits to enter upon and gain access to the areas covered by the Company's mining leases and prospecting licenses.

7. CONVERTIBLE DEBENTURES

During the year ended December 31, 2005, the Company completed a convertible debenture financing for gross proceeds of \$900,000. The debentures bore interest at 7% per annum, payable quarterly, and the principal balance was repayable by June 30, 2010. Debenture holders had the option to convert any portion of the outstanding principal into common shares at the conversion rate of \$1 per share. During the year ended December 31, 2008, convertible debentures totaling \$650,000 were converted into 650,000 common shares. During the nine months ended September 30, 2010, the convertible debenture of \$250,000 was converted into 250,000 common shares.

8. CAPITAL STOCK**Cancellation of shares**

During the nine months ended September 30, 2010, in settlement of a lawsuit, the Company paid \$108,000 for the return of 80,891 common shares which were subsequently cancelled.

Private placements

In June 2010, the Company completed a private placement financing and, on closing of this transaction (the "Closing"), issued 250,000 units at \$1.00 per unit for gross proceeds of \$250,000. Each unit consisted of one common share and one half of one common stock purchase warrant ("Warrant"). One whole Warrant enables the holder to acquire an additional common share at a price of \$1.50 expiring 18 months from the Closing, subject to a forced conversion provision whereby if, at any time after 12 months from the Closing, the Company's closing share price for 10 consecutive trading days equals or exceeds \$2.50 per share, the Company shall have the option to give notice to the Warrant holders that they must exercise their remaining unexercised Warrants within a period of 30 days from the date of receipt of the notice. Any Warrants remaining unexercised after the expiration of the 30-day notice period will be cancelled and will thereafter be of no force or effect. The Company also issued finder's warrants with a fair value of \$15,091 enabling the holders to acquire up to 25,000 common shares at the same terms as the Warrants. The fair value of finder's warrants was calculated using the Black-Scholes valuation method. The assumptions used were 1.5 years of expected life, risk free interest rate of 2.17%, volatility of 100% and a dividend rate of 0%.

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(Expressed in U.S. Dollars)

SEPTEMBER 30, 2010

(unaudited)

8. CAPITAL STOCK (cont'd...)**Private placements (cont'd...)**

In April 2010, the Company completed a private placement financing and, on closing of this transaction (the "Closing"), issued 838,000 units at \$1.00 per unit for gross proceeds of \$838,000. Each unit consisted of one common share and one half of one common stock purchase warrant ("Warrant"). One whole Warrant enables the holder to acquire an additional common share at a price of \$1.50 expiring 18 months from the Closing, subject to a forced conversion provision whereby if, at any time after 12 months from the Closing, the Company's closing share price for 10 consecutive trading days equals or exceeds \$2.50 per share, the Company shall have the option to give notice to the Warrant holders that they must exercise their remaining unexercised Warrants within a period of 30 days from the date of receipt of the notice. Any Warrants remaining unexercised after the expiration of the 30-day notice period will be cancelled and will thereafter be of no force or effect. The Company also issued finder's warrants with a fair value of \$40,516 enabling the holders to acquire up to 73,800 common shares at the same terms as the Warrants. The fair value of finder's warrants was calculated using the Black-Scholes valuation method. The assumptions used were 1.5 years of expected life, risk free interest rate of 2.39%, volatility of 109% and a dividend rate of 0%.

Stock options

The number of shares reserved for issuance under the Company's equity compensation option plan is 3,000,000. The terms and conditions of any options granted, including the number and type of options, the exercise period, the exercise price and vesting provisions, are determined by the board of directors.

At September 30, 2010, the following stock options were outstanding:

	Number of Options	Exercise Price	Expiry Date
	324,000	\$0.70	May 1, 2013
	270,000	\$0.75	May 1, 2013
	270,000	\$0.75	May 1, 2013
	110,000	\$1.00	February 15, 2012
	108,000	\$1.00	January 1, 2013
	216,000	\$1.00	February 1, 2013
	70,000	\$1.05	May 1, 2013
	270,000	\$1.00	May 1, 2013
	90,000	\$1.15	July 1, 2013

Stock option transactions and the number of stock options outstanding are summarized as follows:

	September 30, 2010		December 31, 2009	
	Number of Options	Weighted Average Exercise Price	Number of Options	Weighted Average Exercise Price
Outstanding, beginning of period	972,000	\$ 0.73	1,080,000	\$ 0.72
Granted	864,000	\$ 1.02	—	—
Exercised	—	—	—	—
Cancelled/Expired	(108,000)	\$ 0.70	(108,000)	0.70
Outstanding, end of period	1,728,000	\$ 0.88	972,000	\$ 0.73
Exercisable, end of period	1,397,000	\$ 0.84	972,000	\$ 0.73

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8. CAPITAL STOCK (cont'd...)**Stock options (cont'd...)**

The aggregate intrinsic value for options vested as of September 30, 2010 is approximately \$954,000 (September 30, 2009 - \$235,000) and for total options outstanding is approximately \$1,113,000 (September 30, 2009 - \$254,000).

Stock-based compensation

The fair value of stock options granted during the nine months ended September 30, 2010 totaled \$583,746 (September 30, 2009 - \$Nil). During the nine months ended September 30, 2010, \$331,386 (September 30, 2009 - \$63,974) was expensed and included in general and administrative expenses for options that were vested. The remaining \$252,360 (September 30, 2009 - \$19,896) will be expensed in future periods.

The following assumptions were used for the Black-Scholes valuation of stock options granted during the nine month periods ended September 30, 2010 and 2009:

	September 30, 2010	September 30, 2009
Risk-free interest rate	1.58%	—
Expected life	3 years	—
Annualized volatility	101%	—
Dividend rate	—	—

The weighted average fair value of options granted was \$0.67 (September 30, 2009 - \$Nil).

Warrants

At September 30, 2010, the following warrants were outstanding:

Number of Warrants	Exercise Price	Expiry Date
350,000	\$1.00	April 1, 2011
308,000	\$1.00	May 19, 2011
188,438	\$1.00	August 5, 2011
403,600	\$1.50	June 16, 2011
492,800	\$1.50	October 19, 2011
150,000	\$1.50	December 11, 2011

Warrant transactions and the number of warrants outstanding are summarized as follows:

	September 30, 2010	December 31, 2009
Balance, beginning of period	1,610,038	1,514,471
Issued	642,800	1,610,038
Exercised	(360,000)	—
Expired	—	(1,514,471)
Balance, end of period	1,892,838	1,610,038

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9. RELATED PARTY TRANSACTIONS

During the nine months ended September 30, 2010 and 2009, the Company entered into the following transactions with related parties:

- (a) Paid or accrued consulting fees of \$166,246 (2009 – \$62,113) to officers of the Company or companies controlled by such officers.
- (b) Paid or accrued directors' fees of \$24,030 (2009 – \$12,015) to directors of the Company or companies controlled by directors.

The amounts charged to the Company for the services provided have been determined by negotiation among the parties. These transactions were in the normal course of operations and were measured at the exchange value, which represented the amount of consideration established and agreed to by the related parties.

10. SUPPLEMENTAL DISCLOSURE WITH RESPECT TO CASH FLOWS

	Cumulative amounts from the beginning of the exploration stage on January 1, 2003 to September 30, 2010	2010	2009
Cash paid during the period for:			
Interest	\$ 187,362	\$ —	\$ —
Income taxes	\$ —	\$ —	\$ —

The significant non-cash transactions during the nine months ended September 30, 2010 was the conversion of \$250,000 of a convertible debenture into 250,000 common shares and the issuance of 98,800 finders' warrants valued at \$55,607 pursuant to private placements. As well, common shares were received as payment of accounts receivable of \$10,000, which was related to the sale of an oil and gas interest for a total of \$40,000.

There were no significant non-cash transactions during the nine months ended September 30, 2009.

11. SEGMENTED INFORMATION

The Company has one reportable segment, being the exploration and development of resource properties.

Geographic information is as follows:

	September 30, 2010	December 31, 2009
Capital assets:		
Canada	\$ 11,644	\$ 94,751
Ghana	2,310,183	1,852,321
Total capital assets	\$ 2,321,827	\$ 1,947,072

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12. CONTINGENCY AND COMMITMENTS

- (a) Effective September 1, 2009, the Company has paid CAD\$10,000 (USD\$9,713) per month to its Vice President, Exploration for providing the majority of his time in consulting services to the Company. In the event of termination, without cause, 18 months of fees will be payable. A new management consulting agreement is currently being negotiated.
- (b) The Company leases its corporate office space located at Suite 301, 360 Bay Street, Toronto, Ontario. The lease has a 66 month term commencing May 1, 2007, at approximately CAD\$4,156 (USD\$4,037) per month.